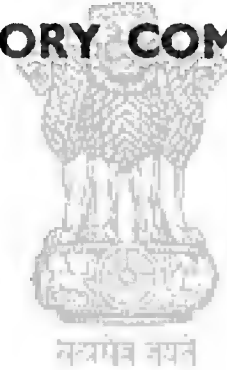




**GOVERNMENT OF MAHARASHTRA
INDUSTRIES AND LABOUR DEPARTMENT**

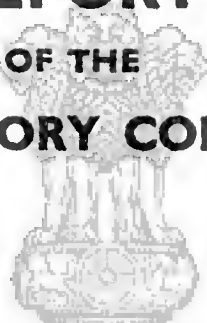
**REPORT
OF THE
GAS ADVISORY COMMITTEE**



**BY THE MANAGER, GOVERNMENT CENTRAL PRESS, BOMBAY, AND
THE DIRECTOR, GOVERNMENT PRINTING AND STATIONERY
MAHARASHTRA STATE, BOMBAY 4.**

1967

REPORT
OF THE
GAS ADVISORY COMMITTEE



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REPORT OF THE GAS ADVISORY COMMITTEE.

CHAPTER I

1. The Government of Maharashtra under Industries and Labour Department, Resolution No. GCS. 1066/49888-Elec. II, dated the 6th September 1966 (Appendix 'A') appointed a Gas Advisory Committee as provided for under section 5 of the Bombay Gas Supply Act, 1939 and required the Committee "to investigate the cost of production and supply of gas to the consumers in the context of the situation now obtaining and likely to develop in the foreseeable future and recommend to the Government whether any revision in price at present charged by the Bombay Gas Company to the consumers is called for and if so to what extent and in which manner." Earlier, the Government of Maharashtra had appointed a similar Committee on 16th February 1963 which submitted its recommendations to the Government at the end of October 1963. The Government accepted the recommendations and gave effect to them with effect from 1st February 1965, as a result of which the sale price of gas was increased from Rs. 3.96 per unit to Rs. 5.00 per unit.

2. The term of the office of the present Committee was to expire on 6th March 1967. As the Committee could not complete its work within this prescribed time, it requested the Government to extend the period and Government accordingly extended the tenure of this Committee by its Resolution No. GCS. 1066/19672-Elec. II, dated 7th March 1967 upto 5th May 1967 (Appendix 'B').

3. When the Committee started its work, one of its members, Shri S. Sankaran, Special Secretary to Government, General Administration Department, was away on tour abroad. He could not, therefore, attend the first few meetings of the Committee. He attended the meetings on 3rd January 1967 and 9th February 1967 after his return from tour and gave his valuable contribution to the deliberations of the Committee. However, on his retirement from the service of Government on 8th February 1967, he ceased to be a member of the Committee and Government did not appoint any one in his place. The Committee hereby acknowledges the assistance rendered by Shri Sankaran.

4. The Committee, for the purpose of examining accounts of the Bombay Gas Company, requested Shri A. J. R. Gonsalves, a qualified

Cost Accountant, who is working as Textile Officer to Government of Maharashtra, Industries and Labour Department, to assist it. The Committee wishes to place on record its appreciation of the very valuable assistance rendered by him.

5. The Committee held in all 15 meetings during which it deliberated upon the various documents presented to it by the Company and the others and heard representatives of the Company, workers of the Company and members of the public who appeared before it in response to a Press Note (Appendix 'C'). The Committee had also the benefit of discussion with the Commissioner, Bombay Municipal Corporation who readily responded to its invitation to meet it and explain the present state of Municipality's efforts to undertake projects to augment the supply of Town Gas to the City.

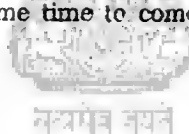


CHAPTER II

Present position of Town Gas in Bombay.

6. The Bombay Gas Company Limited, is a Company registered in the United Kingdom and operating in the city of Bombay and producing and distributing coal gas to the citizens of Bombay for lighting and fuel. It has been in this business since 1863. The Company's paid-up capital is £ 3,00,000 consisting of 30,00,000 shares of 2 Shillings each which in Indian currency at the pre-devaluation rate is equivalent to about Rs. 40,00,000. The Company at present supplies gas to about 20,000 consumers and the total volume of sales is about 16,20,000 units of 1000 cft. per year.

7. The Bombay Municipal Corporation has a few small plants of its own to produce sludge gas out of sewage disposal. The quantity of gas so produced is small and is used mostly for its own purposes in its establishments. It was understood that the Corporation intends to undertake a project of production and distribution of town gas in collaboration with the Fertilizer Corporation of India and has taken certain preliminary steps in the matter. It appeared to the Committee that quite a considerable time will pass before the project comes into fruition and an integrated system of production and distribution of town gas is achieved. Thus, the Bombay Gas Company will be sole producer and distributor of town gas for some time to come.



CHAPTER III

8. The Bombay Gas Company in its Memorandum to the Committee, *nas, inter alia*, urged as under :—

“(1) In view of the heavy loss of Rs. 6.19 lakhs sustained by the Company from its operation in gas in 1965, even after receiving benefits of the increased price of gas for 11 months and considering the further substantial cost increases in 1966, the current price of gas at Rs. 5.00 per '000 cubic feet, effective from 1st February 1965, has become grossly inadequate.

(2) The Company's losses precluded distribution of any dividend to the stock-holders for the past four consecutive years.

(3) To cover the substantially increased costs and provide reasonable return on the Company's heavy investment, it is necessary that the price of town's gas should be adequately increased at a very early date.

(4) Three years have already elapsed since the middle of 1963, when the Gas Advisory Committee formulated its findings and recommendations relating to the revision of gas price. This is a sufficiently long interval of time to justify a further adequate increase in gas price. There are many instances of significant price and rate increases at short intervals, even in the cases of such basic commodities and services as coal, iron and steel, cement, railway freight, bus, tram, transport services, kerosene and electricity. The electricity rates were increased frequently under a defacto Escalator Clause to enable the electrical undertakings not only to cover increased costs but also to earn substantial profits permitting payment of high dividend and allocation of large amounts to various reserves.

(5) Piped gas, supplied by the Bombay Gas Company is a semi-luxury consumed by the rich and upper-middle class people of the Bombay City. There is absolutely no justification for supplying town's gas to them at a grossly uneconomic price which has been, in effect, heavily subsidised at the cost of the Company. There can also be no justification for the rigid control that has been imposed on its price over these past many years. The control of town's gas price should be relaxed and liberalised and ultimately, withdrawn, at an early date.

(6) A fair economic price for town's gas should be made up of the following components :—

- (i) Net cost as at the close of the year 1965;
- (ii) Cost increases in 1966, as ascertainable to date;
- (iii) Provision for bonus under the Payment of Bonus Act;
- (iv) Adequate provision for contingency in conditions of rapid changes in socio-economic factors, such as taxes and rates, coal and electricity, freights, costs of social security imposts, cost of living allowance, cost of machinery, repairs and maintenance, etc.;
- (v) Adequate provision for rehabilitation of fixed assets which have to be replaced at a much higher cost than what can be covered by the current rates of depreciation allowed by the Income-tax Law;
- (vi) Contribution towards the cost of the expansion programme;
- (vii) Compensation for the accumulated losses sustained by the Company solely by reason of the imposition of a grossly uneconomic price over the years; and
- (viii) Reasonable return on the investments. These items, together with a nominal provision for Directors' remuneration and after taking credit for the receipts from certain investments, add up to a net figure of Rs. 13.40 per '000 cubic feet of gas sold. Details of these items of cost have been worked out in a number of Annexures to the Memorandum. This is the revised price for gas claimed by the Company.

(7) It is also important to emphasize that the proposed fair economic price for town's gas would give the necessary incentive and impart sufficient financial strength to the Bombay Gas Company to complete, expeditiously, the implementation of its substantial expansion programme, on which it embarked in 1964 and which is designed, in its first phase, to expend gas supplies adequately to provide for at least 5,000 new gas connections and which would also save foreign exchange expenditure on kerosene on a substantial scale.

(8) In further jurisdiction of the proposed price increase for town's gas, it may also be pointed out that the rates for other basic utilities, such as bus and tram transport service, in the cities and in the countryside, are also being increased substantially at frequent intervals, to cover increased costs and provide for adequate return.

(9) The grant of the proposed price for gas should be linked up with an Escalator Clause, allowing automatic adjustment of the gas price to cover significant increase in the costs of production and distribution of gas due to statutory order relating to such factors as the prices and freight of coal, dearness allowances, rates and taxes, awards by the law courts or industrial tribunals, provident fund contribution, employees' sickness insurance and unemployment insurance or on account of market factors such as cost of repairs and maintenance, interest charges, etc.

(10) The Company, in the light of all the circumstances, justifying its claim for a price of Rs. 13.40 per '000 cubic feet of gas sold, earnestly requested the Government to be so good to sanction the proposed price for gas at a very early date."



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CHAPTER IV

9. Spelling out the details of computation of fair price of town gas, the Company has urged that the following be taken into consideration:—

- (i) Actual cost of production as per figures of 1965;
- (ii) Increase in cost of raw materials, electricity, fuel and wages in 1966 over 1965;
- (iii) The bonus provision at 20 per cent. as per the maximum rate under the Payment of Bonus Act, 1965;
- (iv) Provision for contingency;
- (v) Provision for rehabilitation of the fixed assets of the Company;
- (vi) Incidence of the cost of expansion programme;
- (vii) Compensation for the past loss;
- (viii) Provision for reasonable return on capital employed;
- (ix) Provision for Directors' remuneration;
- (x) A reduction in the price commensurate with the miscellaneous receipts.

10. With reference to item (viii) above regarding reasonable return on capital, the Company has urged that the capital employed as assessed by it at Rs. 1.56 crores should be taken into account on which a gross profit of 27.5 per cent. be allowed to ensure a net return commensurate with what is recommended by the Planning Commission for electricity undertakings. Specifically, the Company has assessed the computation of the future price per unit of 1000 cft. of gas as follows:—

				1965 Rs./Unit.
(i) Cost as per 1965 figures	..	..	..	5.24
(ii) Cost increase in 1966 over 1965	..	..	..	0.87
(iii) Bonus provision	..	..	..	0.49
(iv) Contingency provision	..	..	..	0.42
(v) Rehabilitation provision	..	..	..	2.86

			1965 Rs./Unit.
(vi) Incidence of expansion	..	..	0.71
(vii) Compensation for past losses	..	..	0.98
(viii) Reasonable return	..	..	1.90
(ix) Directors' remuneration	..	..	0.02
			<hr/>
			13.49
(x) Less miscellaneous receipts	..	..	0.08
			<hr/>
Reasonable price per unit of gas	..	..	13.41
			<hr/>



CHAPTER V

THE EXAMINATION OF THE POINTS MADE IN THE MEMORANDUM OF THE BOMBAY GAS COMPANY LIMITED.

11. The efforts made by the Committee to examine the points made by the Company in the memorandum and other submissions have been enumerated in Chapter I. As a result of the examinations of the submissions made by the Company and others the Committee has come to the following conclusions :—

12. The Committee has assumed 16·2 lakh units of gas, on an average of production figures from 1961 to 1965, as the basis for its consideration and on this basis and taking into account the latest available published and audited accounts of the Company for the year ending December 1965, the cost of production per unit of gas in that year is arrived at Rs. 5·24 per unit of 1,000 cft. It would be observed that this is higher by 24 paise than the price of Rs. 5·00 per unit allowed by the Government on the recommendations of the earlier Gas Committee with effect from 1st February 1965. In other words, the higher price was inadequate even in the first year of its application. The audited account of the Company for the year 1965 disclose a loss of Rs. 4·95 lakhs.

13. The Company has, in the course of the examinations by the Committee, submitted further documents and statements of costs and increases upto March 1967. The Committee has taken note of these statements after getting them duly checked by the Cost Accountant, Shri A. J. R. Gonsalves. Based on these increases the Committee recommends further addition to the cost price of gas according to 1965 accounts. In recommending this additions, the Committee has taken note of the arguments put forth by the Bombay Gas Company that increase in the cost of production should entirely be passed on to the price of gas alone as bye-products are not in a position to bear any increase in the price. The previous Gas Advisory Committee had allocated the increased cost of production between gas and bye-products in the ratio of 54·46 with an additional load of 15 paise to gas. The Committee has examined in detail the plea of the Bombay Gas Company as mentioned above and has come to the conclusion that there is considerable force in this plea and that the bye-products which have to face keen competition from other suppliers cannot bear any increase

in price on account of increase in costs. The Committee has, therefore, come to the conclusion that the entire increase in cost should be allocated to gas.

14. *Bonus Provision.*—The Payment of Bonus Act, 1965 lays down *inter alia* that a minimum bonus of four per cent. should be payable to the employees of an undertaking. This being a straight charge irrespective of the profits earned by the Company, the Committee considers it reasonable to allow it as an item of costs. The Company has, however, contended in its submissions to the Committee that the fair price for gas should be determined by including therein a provision for bonus at the maximum rate allowed under the Bonus Act. While the Committee concedes that the employees should share in the profits over and above the minimum statutory limit of four per cent. to the extent possible as laid down under the Bonus Act, the Committee does not think it proper that selling price of gas should be predetermined in the manner as submitted by the Bombay Gas Company. The allocable surplus as set out in the schedule to the Payment of Bonus Act, 1965, can only be worked out after the finalisation of the accounts for a particular accounting year.

15. *Contingency provision.*—The Committee feels that having recommended an escalator clause below to take care of variations in the price of main items of costs, there is hardly any need to make any substantial provision in computing the price of gas for contingent expenditure. However, a small provision is recommended to meet unavoidable expenditure due to increases in other minor items of cost.

16. The Committee does not consider it fair and reasonable to provide in the computation of price any amount for rehabilitation, incidence of expansion and compensation for past losses as claimed by the Company. The Committee feels that this will not be a reasonable burden to impose upon the present consumers. While on this, the Committee would like to draw attention to the previous practice of the Company, viz., of paying high dividends without any commensurate reduction in the price of gas to consumers even during very prosperous times and diverting the surplus resources of the Company to purposes other than those directly connected with the main business of the Company.

17. *Reasonable return.*—For the purpose of providing a reasonable return, the Committee has decided to adopt, as the earlier Committee had done, the paid up capital of the Company as the basis. The previous Committee had recommended a gross return of 14 per cent. on the paid up capital of Rs. 40,00,000. Taking into account the fact that returns on industrial investments are now higher than before, the Committee considers

that 20 per cent. gross return on the paid up capital would be reasonable. As the Company has to-day substantial carry-forward of losses, the Committee feels that there will be considerable relief to the Company on account of its not being liable to taxation for some time. It is, therefore, hoped that out of this proposed 20 per cent. gross return, the Company should be able to retain considerable funds in business and stabilise its financial position. In this connection, the Committee would also like to remark about the investment of nearly Rs. 36,00,000 of the funds of the Company in shares of other Companies and on which the Company is getting very poor returns. The Committee recommends that these unfruitful investments should be liquidated at the earliest and the funds so obtained utilised for the betterment of its main activity, viz. the production and distribution of town gas.

18. The Company has asked for a small provision of 2 paise per unit as Directors' remuneration. The Committee having made the provisions as indicated above for some of the items under 'Contingency', it is not considered necessary to make any provision for Directors' remuneration.

19. In their representations to the Committee both orally and in writing by the representatives of the workers and employees of the Company, it has been submitted that while the DFA is computed by the Company in accordance with the practice applicable to the textile workers, basic wages are low and have not been revised for a very long time. The demand for revision of scales of basic wages of the employees of the Company and the request for other facilities are pending before the Industrial Court on a reference made by the Government. The representatives of the workers have urged the Committee to make a specific provision in the price structure of the gas to meet these pending demands and ensure that this provision is not applied by the Company for any other purpose. The Committee has examined this request and has come to the conclusion that it would not be proper to sit in judgement over these demands and make any provision as requested as the issue is pending in the Industrial Court, which would decide and make its award on merits. If this award should lead to any increase in the bill of costs, the escalator clause proposed by the Committee below should provide for this contingency. If, however, Government does not accept this proposal of the escalator clause, the Committee recommends that a suitable addition to the price recommended by the Committee should be made to meet any substantial increase in the bill of cost of the Company over the level of December 1966 consequent on the Industrial Court's Award on the pending reference.

20. Having taken into consideration all the available facts and in the light of the examination of these points by the Company, the Committee has come to the conclusion that the current price of gas of Rs. 5 per unit of 1,000 cft. fixed by the Government with effect from 1st February 1965 on the recommendations of the previous Gas Advisory Committee was short of reasonable price even in that year. The position has further deteriorated in 1966 as indicated by figures submitted by the Company and checked by the Cost Accountant. The Committee, therefore, has come to the conclusion that there is an immediate case for upward revision of the price of the gas and the Committee recommend that this should be fixed at Rs. 6.84 per unit of 1,000 cft., according to the details given in Appendix 'D'. Considering the trend of prices, it is quite likely that there may be further rise in the cost of production. In order to obviate the necessity of going through the procedure of appointing price advisory committee at frequent intervals, the Committee further recommends that an escalator clause as indicated below should also be accepted by the Government for automatic variations in the price of gas with reference to the fluctuations in cost of production.

21. In making this recommendation, the following assumptions are made :—

(1) That the annual sale of gas which is 16.2 lakh units of 1,000 cft. is taken as the basis of sale being the average of the past five years.

(2) That one tonne of coal will produce 14.5 units of 1,000 cft. saleable gas, after accounting for losses in production and distribution and that one kilo-litre of oil will be required to produce along with coke 200 units of 1,000 cft. saleable gas, after accounting for losses in production and distribution. The escalator clause should be as follows :—

(i) For every increase of 16 paise per tonne of coal on any account, i.e. either in cost or in freight, there shall be an increase of one paise for a unit of 1,000 cft. of gas sold.

(ii) For every increase of Rs. 10 per kilo-litre in the price of oil on any account, i.e. either in cost or freight, there shall be an increase one paise for a unit of 1,000 cft. of gas sold.

(iii) For every increase of Rs. 50,000 in the wages and salaries bill of employees (excluding Officers of the Company) including basic wages and DFA and statutory obligations such as Provident Fund, E.S.I.C., there shall be an increase of one paise in the price of gas per unit of 1,000 cft. of gas sold.

Note.—(i) The revision shall be on the basis of the certified statements of costs for the previous accounting year by the statutory auditor.

(ii) No effect shall be given if the sum total of the above increase in cost of gas does not exceed 5 paise per 1,000 cft. of gas sold.

(iii) The same principle should hold good *mutatis mutandis* for a fall in the cost.

22. The members of the Committee visited the factory premises on 18th April 1967 where they were shown round the various stages of production by the officers of the Company. The members generally noted that the methods of handling material were very outmodel and there was considerable room for improvement, which would cut down cost and improve working conditions. It was stated by the technical officer of the Company that it could expand its production, but its limited storage capacity stood in the way. This could be improved by installing another gas holder which might, according to the estimate of the Company, involve an expenditure of Rs. 40,00,000. The Committee has, in its recommendations, allowed for a revised price of gas providing reasonable return on the capital and in the escalator clause has also provided for future fluctuations in the event of increase in the price of essential items of cost. There is, therefore, scope for improvement in productivity. It is hoped that the Company will soon undertake necessary steps to increase its storage capacity and be able to supply town gas to the large number of citizens who have registered for the supply of this gas.

23. The recommendations of the Committee may be examined by the Government immediately and Government's decisions also taken without delay lest the Company's financial position become further weak and serious consequences in production and distribution of this essential fuel to large number of citizens occur.

24. The Committee once again places on record its grateful appreciation of the services rendered by Shri A. J. R. Gonsalves in his capacity as Cost Accountant. He had to go through the Memoranda, etc. and examine the voluminous data given by the Company, in order to determine the actual cost of production. It also places on record its appreciation for the valuable assistance of Shri S. Sankaran, Special Secretary, General Administration Department during his brief membership of the Committee. Dr. V. V. Kale, who as Secretary to the Committee had to bear the brunt of the day to day work and preparation of materials for the deliberations of the Committee, has done yeomans service and the Committee thanks him for it.

(Signed) B. D. GARWARE,
Chairman.

(Signed) H. Nanjundiah,
Member.

(Signed) V. V. Kale,
Member-Secretary.

APPENDIX 'A'

Gas Advisory Committee— Appointment of—

GOVERNMENT OF MAHARASHTRA

INDUSTRIES AND LABOUR DEPARTMENT

Resolution No. GCS. 1066/49888/ELEC-II

Sachivalaya, Bombay-32, dated the 6th September, 1966

In exercise of the power conferred by Section 5 of the Bombay Gas Supply Act, 1939 (Bom. Act, IX of 1939), the Government of Maharashtra is pleased to constitute an Advisory Committee which shall consist of—

Chairman :

Shri B. D. Garware.

Members :

1. Shri S. Sankaran, Special Secretary to Government, General Administration Department.
2. Shri H. Nanjundiah, Joint Secretary to Government, Industries and Labour Department, and
3. Shri V. V. Kale, Deputy Director of Industries, Bombay, Member-Secretary.

The Committee shall investigate the cost of production and supply of gas to the consumers in the context of the situation now obtaining and likely to develop in the foreseeable future and recommend to Government whether any revision in the price at present charged by the Bombay Gas Company Limited to the consumers is called for and, if so, to what extent and in which manner.

In determining the cost of production, the Committee shall take into account factors such as cost of coal, electricity rates, cost of consumable articles, wages paid at present and possible increase therein, if any, in the foreseeable future, etc.

3. The Committee may summon and examine any witnesses whose evidence it may consider necessary for the proper performance of its duties under this Resolution.

4. The Committee shall complete its investigation and make its recommendation to Government within a period of six months from the date of this Resolution.

5. Travelling Allowance under Rule I (1) (b) of Appendix XLII-A to the Bombay Civil Services Rules Manual Volume II should be paid to the non-official

member of the Committee. The cost should be debited to the grants placed at the disposal of the Industries Commissioner, Bombay under "35-Industries".

6. The accompanying notification should be published in the Maharashtra Government Gazette.

7. This Resolution issues with the concurrence of the Finance Department *vide* its unofficial reference No. 15921 dated the 30th August, 1966.

By order and in the name of the Governor of Maharashtra,

(Signed) H. S. NARGUND,
Under Secretary to Government



APPENDIX 'B'

*Gas Advisory Committee—
Extension of tenure of the—*

GOVERNMENT OF MAHARASHTRA

INDUSTRIES AND LABOUR DEPARTMENT

Resolution No. GCS. 1066/19672-ELEC-II

Sachivalaya, Bombay-32, dated the 7th March, 1967

Read :—

Government Resolution, Industries and Labour Department No. GCS. 1066/49888-ELEC-II dated the 6th September, 1966.

Letter No. GSA/GAC/RM-III/2289, dated the 22nd February 1967, from the Member-Secretary, Gas Advisory Committee and the Deputy Director of Industries (RM).

RESOLUTION.—Government is pleased to extend the tenure of the Advisory Committee constituted under Government Notification, Industries and Labour Department No. GCS. 1066/49888-ELEC-II, dated the 8th September, 1966 upto 5th May 1967. The accompanying notification should be published in the Maharashtra Government Gazette.

2. This Government Resolution issues with the concurrence of the Finance Department, *vide* its unofficial reference No. 591-VI, dated 1st March 1967.

By order and in the name of the Governor of Maharashtra,

(Signed) H. S. NARGUND,
Under Secretary to Government.

APPENDIX 'C'

PRESS NOTE

In exercise of the powers conferred by Section 5 of the Bombay Gas Supply Act, 1939 (Bom. Act IX of 1939) the Government of Maharashtra in the Industries and Labour Department have appointed on 6th September 1966 a Gas Advisory Committee under the Chairmanship of Shri B. D. Garware to investigate the cost of production and supply of Gas to the consumers by the Bombay Gas Company Limited, Bombay and to recommend to Government whether any revision in the price charged to the consumers is called for. The tenure of the Committee is for six months. The members of public having useful and relevant information relating to the above investigation may give their evidence to the Committee in writing to Dr. V. V. Kale, Member-Secretary of the Gas Advisory Committee and the Deputy Director of Industries (Raw Material), Directorate of Industries, Sachivalaya Annexe, Bombay-32, before the end of November 1966. No oral evidence will be recorded at this stage, but any one who desires to give such oral evidence may communicate his name and address to the Secretary of the Committee.



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APPENDIX 'D'

Cost of production and distribution of Gas and the rates at which the Company may charge the consumers for a Unit of 1,000 cft.

Rs. P.

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|--|---|
| <p>1. Cost of production and distribution of Gas in 1965. ...</p> <p>2. Increase in cost in the interim period upto 15th February 1967.</p> <p>3. Allowance for minor contingency. ...</p> <p>4. Return on capital at 20 per cent. (before deduction of Corporation Tax) on paid-up capital of Rs. 40,00,000.</p> <p>5. Less Miscellaneous receipts (Interest, dividends, etc.). ...</p> | <p>5-24 This is according to Company's finances, after giving due issue to revenues received from the sale of bye-products.</p> <p>1-03 This calculation is on the basis of information supplied by the Company and accepted by the Committee. However, a sum of Rs. 90,650 has been excluded from the increase towards emergency premium as no payment has been made. The Committee has in accordance with its recommendation allocated interim increase in cost of production to above.</p> <p>0-15</p> <p>0-50</p> <p>0-08</p> |
|--|---|

Rs. ... 6-84